HSBC Global Research

16 July 2020

China Real Estate

A new way to grow via urban renewal projects

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- As growth becomes more challenging, we highlight urban renewal as a key theme, catalyst and differentiating factor
- It's not new but becoming more relevant; if executed right, it can bring years of profit contribution with lucrative margins
- Our analysis points to KWG (Hold), Times China (Buy) and Logan (Buy, lift TP by 24% to HKD17.80), as key rising stars

When growth is harder… We believe urban redevelopment projects will increasingly play an important role in formulating developers' growth stories, acting as potential share price catalysts in the years to come. Simply put, they offer a new source of landbanks that enrich a developer's land reserves and saleable resources. While this is not new, it remains a relevant long-term theme with positive implications, bypassing the issue of high land cost associated with open market land acquisitions. It's a new mode of growth to be integrated into a developer's core business that faces increasingly intense competition and invites keen participation among peers. The upside lies in the lucrative margins along with years of potential profit contributions, in our view. Separate from this report, we initiated coverage of **Times China (1233 HK)** at Buy (see *Initiate at Buy: Still cheap, alive and kicking*) as a leader in urban renewal projects and highlight it as one of our key picks, along with **CRL, CIFI, CG** and **Logan**, all rated Buy.

…urban renewal projects serve as a key differentiating factor and catalyst: As developers' sales have seen significant growth since 2017 and the post COVID-19 sales recovery has largely played out, we believe expertise in urban renewal projects becomes a key differentiating factor and relevant potential share price driver. In this report, we provide a blueprint of the urban renewal theme, detailing developers' project pipelines and saleable resources to quantify the potential growth upside. Considering this is a long-term sector theme, developers have notably stepped up disclosures related to their progress on urban renewal projects.

Three rising stars: Our analysis of landbanks and saleable resources reveals that **KWG, Logan** and **Times China** are well-positioned to capture potential upside from their urban renewal project pipeline with prospective saleable resources being 4x-plus higher than their respective FY19 contracted sales level. Key investment risks are a lengthier and more uncertain execution timeline and the requirement for upfront capital commitment.

Valuation summary

Company	Ticker	Currency	Current Price	Target Price Old	Target Price New	Rating Old	Rating New	Upside/ Downside	Market Cap (USDbn)	3m ADTV (USDm)
Times China	1233 HK	HKD	14.62	19.20	19.20	Buy	Buy	31%	3.7	8.7
Logan	3380 HK	HKD	14.48	14.30	17.80	Buy	Buy	23%	10.3	7.8
CRL	1109 HK	HKD	35.05	40.90	40.90	Buy	Buy	17%	32.2	54.4
KWG	1813 HK	HKD	13.46	13.10	13.10	Hold	Hold	-3%	5.5	13.6
CIFI	884 HK	HKD	6.71	8.60	8.60	Buy	Buy	28%	7.0	15.6
CG	2007 HK	HKD	10.56	11.50	11.50	Buy	Buy	9%	29.8	33.7

Source: Bloomberg, HSBC estimates. Note: Priced on 10 July 2020

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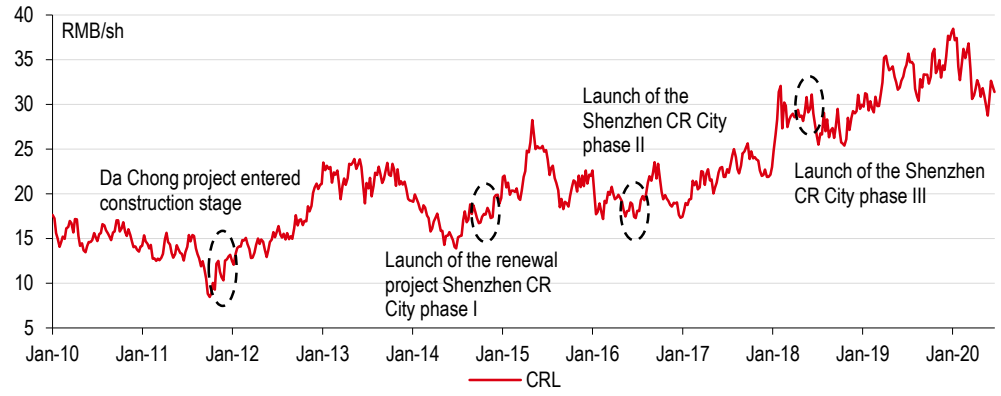
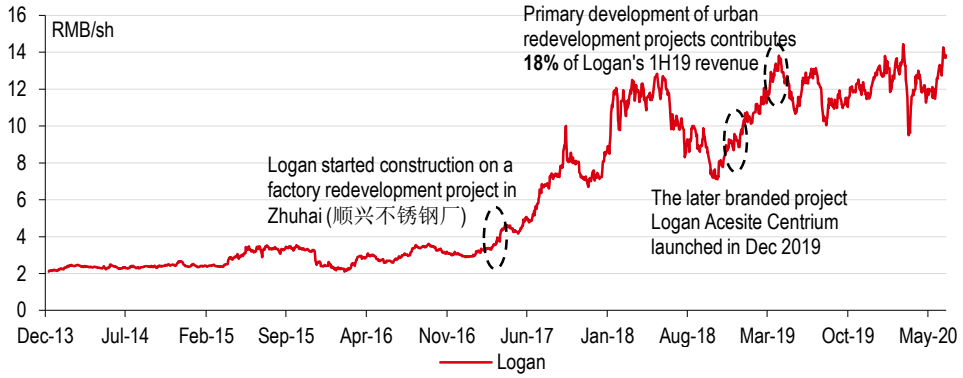
Urban redevelopment as a potential share price catalyst

Figure 1: CRL re-rated along with progress of the Da Chong urban renewal project



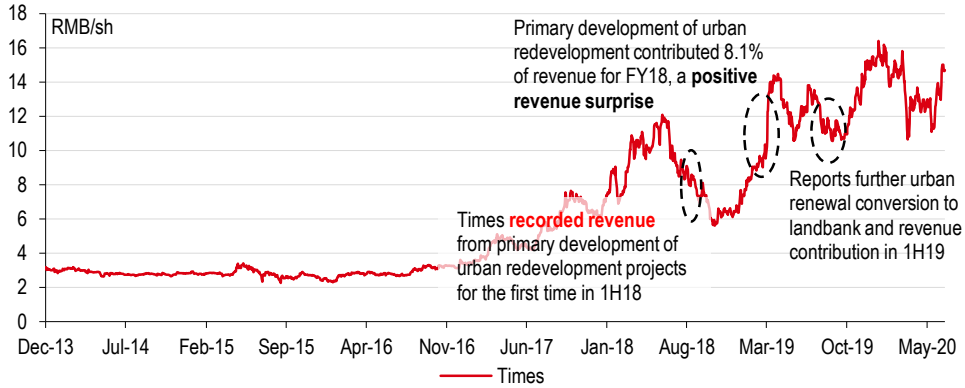
Source: Bloomberg, HSBC

Figure 2: Logan's revenue contribution from urban renewal projects served as a share price catalyst



Source: Bloomberg, HSBC

Figure 3: Times China's revenue contribution from urban renewal projects served as a share price catalyst



Source: Bloomberg, HSBC

Executive summary

- This report examines developers' alternative growth channels via their participation in urban redevelopment projects
- The key attraction is cheaper land cost, though execution risks are relatively high
- We identify the beneficiaries that are set to win the competition for these projects, supporting a more visible and favourable future growth profile

Time to find new growth via Times China

Our differentiated report examines the growth outlook of developers, driven by their ability to undertake and execute urban redevelopment projects, an increasingly popular and highly sought after source of future landbanks. Along with this report (and in a separate company report) and riding on the long-term structural theme of urban redevelopment, we **initiated coverage of Times China (1233 HK) with a Buy rating** (see *Initiate at Buy: Still cheap, alive and kicking*) as a leader in urban renewal projects. As major developers have significantly scaled up their residential sales business, urban redevelopment projects present an alternative way of replenishing landbanks and will likely remain the strategic direction of major developers in the long term. The unique aspect of urban redevelopment projects is related to the cheaper cost of land, which generates more lucrative project-level profit margins. Indeed, cheaper land cost is the single most important reason behind developers' enthusiastic attitude towards their keen participation in these projects, as most have long battled the high land cost challenges stemming from traditional auctions/tenders, which notably eroded margins.

Room for a long-term re-rating

The prospects of urban redevelopment projects brings excitement to the sector, as they give select developers an edge and show differentiation among them. We believe this is exciting because a developer's journey to build a strong execution track record in urban renewal projects will be seen as a key catalyst and share price driver. A consistent journey of accumulating urban redevelopment projects will likely underpin a developer's re-rating story, particularly for small- to medium-sized developers.

Urban redevelopment doesn't provide a level playing field because projects are hard to secure and execute. Therefore, despite a desire to participate, only a handful of companies have demonstrated some success. One key challenge is the long payback period, given the lengthy development cycle, uncertainty tied to resident relocations, and land title conversion. As such, a pre-requisite for participating developers is balance sheet strength and flexibility due to the lengthy development cycle that spans several years. This presents a near-term disadvantage versus the fast asset turnover nature of land sites acquired via auctions. Nevertheless, the long-term prospects of these projects in terms of sales scale and profitability make the effort and investment worthwhile. In our view, developers recognise the development risks involved and the need to strike a delicate balance in their pursuit of these highly profitable projects.

Who wins?

We take a simplistic approach in our assessment of developers that may have the highest potential to outcompete others undertaking urban redevelopment projects. Given that most developers disclose their estimated landbanks and saleable resources from the future pipeline of urban redevelopment projects, we calculate:

1. **Potential urban redevelopment GFA as a percentage of the current landbank:** This ratio indicates potential upside to the current landbank upon successful land title conversion of urban redevelopment land sites, which enrich the saleable resources project pipeline.
2. **Potential value accretion (saleable resources) brought by urban redevelopment projects:** This ratio depicts a clearer picture of developers' sales growth potential as projects in top tier cities are sold at higher price points.

Among our coverage universe, our calculations reveal that **Times China (1233 HK, HKD14.62, Buy)** presents the most potential upside to growth, followed by **KWG (1813 HK, HKD13.46, Hold)** and **Logan (3380 HK, HKD14.48, Buy)**, all of which offer potential urban redevelopment saleable resources being 4x-plus higher than their respective FY19 contracted sales level.

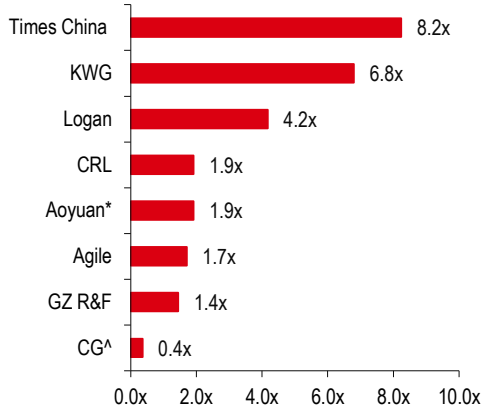
With a strong track record in urban redevelopment projects and a visible long-term growth profile, we highlight **Times China** as one of our key picks, along with **CRL, CIFI, Country Garden** and **Logan.** While KWG also features as a stock with strong urban redevelopment prospect, we believe the current valuation has already appropriately factored in the potential upside.

Figure 4: Developers' urban redevelopment project pipeline

Company	Potential GFA as of end-2019 (m sqm)	Ratio to total landbank as of end-2019	Urban renewal saleable resources as of end-2019 (RMBbn)	Compare to 2019 contracted sales	Implied ASP (RMB/sqm)	Location of urban renewal projects
Times China	43	187%	645	8.2x	15,000^^	GBA
KWG	14	83%	585	6.8x	41,786	GBA
Logan	21	58%	401	4.2x	19,076	95% in GBA
CRL	31	53%	465	1.9x	15,000^^	98% in GBA, 71% in Guangzhou and Shenzhen
Aoyuan*	14	32%	226	1.9x	15,860	
Agile	6	12%	200	1.7x	33,333	GBA, Beijing, Taiyuan, Xi'an, Tianjin, Zhengzhou
GZ R&F	40	72%	200	1.4x	NA	60% in GBA, Taiyuan, Xi'an
CG^	14	5%	199	0.4x	14,236	Shenzhen and other cities
CIFI^	6	15%				GBA

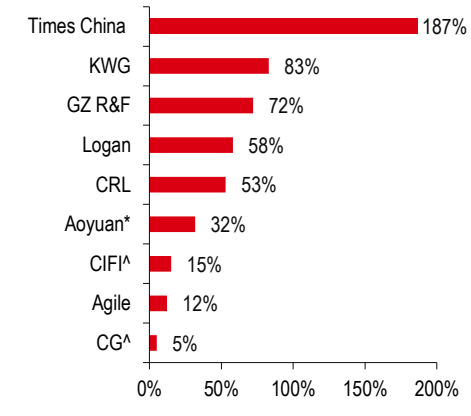
Source: Company data, HSBC
Note: *Company not under our coverage. ^CG and CIFI's numbers are from 1H19. ^^Times China and CRL's saleable resources are estimated by assuming RMB15,000/sqm of ASP, which is the average ASP in 2018-1H20 for major urban redevelopment companies. GBA – Greater Bay Area. NA – Not applicable/available.

Figure 5: Multiple of developers' potential urban renewal saleable resources to FY19 contracted sales



Source: Company data, HSBC
Note: *Company not under our coverage. ^Using 1H19 data.

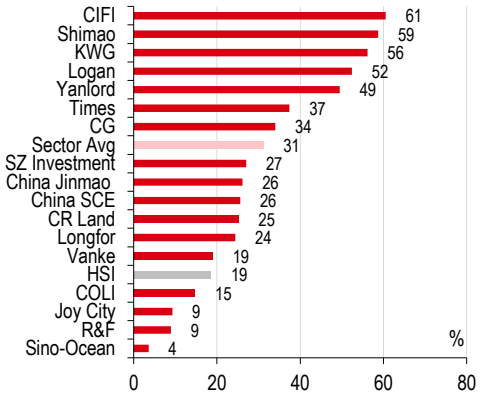
Figure 6: Ratio of developers' potential GFA from urban renewal projects to the current landbank



Source: Company data, HSBC
Note: *Company not under our coverage. ^Using 1H19 data.

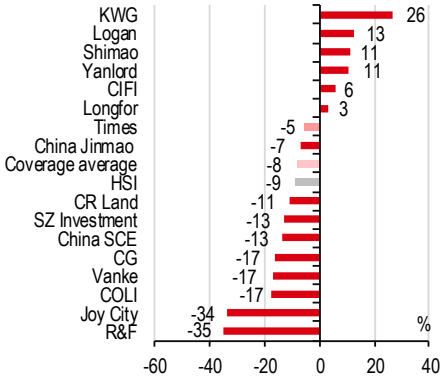
Share price performance and valuation

Figure 7: Share price rebound from the recent low



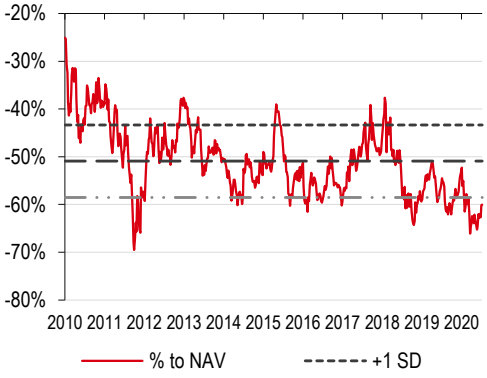
Source: Bloomberg, HSBC. Note: Priced as at 10 July 2020. Recent low refers to stock price during mid-March.

Figure 8: Year-to-date share price performance (%)



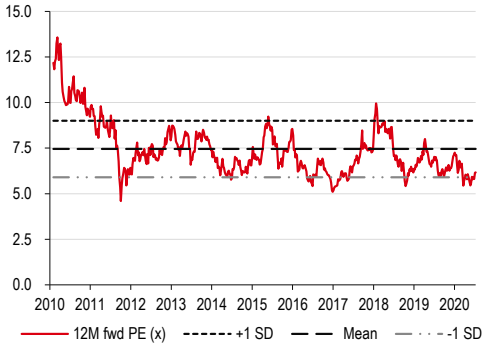
Source: Bloomberg, HSBC. Note: Priced as at 10 July 2020.

Figure 9: China property NAV discount



Source: Company data, Refinitiv Datastream, HSBC estimates

Figure 10: China property 12-month forward PE



Source: Company data, Refinitiv Datastream, HSBC estimates

Figure 11: Valuation summary

Company	Ticker	Rating	Price (HKD)	TP (HKD)	Mkt Cap (USDbn)	3m ADTV (USDm)	NAV (HKD/share)	(Disc)/ Prem (%)	FY19a PE (x)	FY20e PE (x)	FY21e PE (x)	FY20e Yield (%)	FY19a PB (x)	FY20e Net Gearing
COLI	688 HK	Hold	25.25	27.90	35.7	56.2	46.50	(46)	7.2	6.2	5.1	4.8	0.9	36
CRL	1109 HK	Buy	35.05	40.90	32.2	54.4	59.40	(41)	12.7	11.4	9.4	3.8	1.2	57
China SCE	1966 HK	Buy	3.93	4.60	2.1	4.2	14.00	(72)	5.5	4.0	3.2	8.2	0.8	128
China Vanke	2202 HK	Buy	27.60	30.60	47.2	37.9	51.00	(46)	7.3	6.5	5.7	3.8	1.5	53
CIFI	884 HK	Buy	6.71	8.60	7.0	15.6	18.30	(63)	6.8	5.5	4.6	6.3	1.5	169
CG	2007 HK	Buy	10.56	11.50	29.8	33.7	19.10	(45)	5.0	4.5	4.1	6.8	1.3	82
China Jinmao	817 HK	Reduce	5.65	4.30	8.6	21.1	12.20	(54)	9.6	8.8	6.9	4.5	1.5	198
GZ R&F	2777 HK	Hold	9.29	11.00	4.2	15.7	53.60	(83)	2.9	2.8	2.5	16.0	0.4	234
Joy City	207 HK	Buy	0.59	0.70	1.1	0.6	3.50	(83)	6.4	5.8	5.1	7.7	0.2	84
KWG	1813 HK	Hold	13.46	13.10	5.5	13.6	50.20	(73)	7.3	6.2	5.4	6.5	1.1	99
Logan	3380 HK	Buy	14.48	17.80	10.3	7.8	33.60	(57)	7.1	5.7	4.7	6.2	2.2	103
Longfor	960 HK	Buy	38.00	38.20	29.4	33.3	63.60	(40)	12.8	10.2	9.0	4.4	2.1	91
Shimao	813 HK	Hold	33.80	35.30	15.4	36.6	50.50	(33)	9.5	8.1	6.7	5.0	1.5	118
Sino-Ocean	3377 HK	Hold	2.02	2.30	2.0	1.6	12.60	(84)	6.6	5.6	4.7	7.2	0.3	109
SZ Investment	604 HK	Hold	2.68	2.40	3.1	1.8	7.00	(62)	7.5	6.1	6.4	6.6	0.5	44
Times China	1233 HK	Buy	14.62	19.20	3.7	8.7	36.30	(60)	4.5	4.0	3.4	7.5	1.3	141
Yanlord (SGD)	YLLG SP	Hold	1.36	1.16	1.9	1.7	3.32	(59)	5.3	3.9	3.1	6.9	0.5	117
China Props - simple average						**18.9**		**(60)**	**8.0**	**7.1**	**6.2**	**6.6**	**1.0**	**110**
China Props - average excluding Joy City						**20.8**		**(58)**	**7.3**	**6.2**	**5.3**	**6.7**	**1.1**	**115**

Source: Bloomberg, HSBC estimates. Note: Priced as at 10 July 2020. TP – Target Price.

Urban renewal: five Ws

- Compared with shantytown redevelopment, urban redevelopment is a broader concept…
- …and a long-term agenda item that depicts China's city dynamics and regional real estate prospects
- Progress in different cities across the country diverges

A new way to grow

What

Urban redevelopment projects serve the purpose of transforming and revitalising urban areas in China. From the real estate perspective, urban redevelopment is intended to improve the land use efficiency while reducing the stock of idle land. This process brings economic activities, enhance land value and as such, brings opportunities to property developers as more sophisticated consumers look to upgrade their living standard. There are nine types of urban redevelopment projects as detailed in **Figure 12** below.

Figure 12: Nine types of urban redevelopment projects

No.	Lead	Type	Type (CN)	Target	Content
1	Government-led	Expropriation	收储	Factory	The government expropriates the land and performs the demolition; afterwards, the land is listed for auction
2	Government-led	Rent	统租	Industrial park	Public institution under the government rents and redevelops rural-collective land previously used for factories
3	Government-led	Comprehensive redevelopment	综合整治	Cultural site	Improving public facilities, infrastructure, and road, while not demolishing existing buildings
4	Government-led	Cooperated redevelopment	合作改造	Village	Government invites tenders for demolition work, the bidder needs to pre-pay compensation; then the land will be or will not be listed for auction
5	Market-led	Village self-redevelopment	农村集体自行改造	Factory	The village organisation invites tender for early-stage demolition and compensation; when the land is ready for transfer, the land use right is transferred to a subsidiary company of the village organisation
6	Market-led	Village-enterprise cooperation	村企合作	Village	The village organisation invites tenders for early-stage demolition and compensation; when the land is ready for transfer, the government lists the land for auction
7	Market-led	Enterprise self-redevelopment	企业自改	Factory	The enterprise selects a cooperative partner; use changed from industrial use to commercial use after paying the land price difference
8	Market-led	Acquisition and redevelopment	企业收购改造	Industrial park	The investor acquires several adjacent old factories; the local natural resources department combines the land and transfers the land use right to the investor
9	Market-led	Single-entity redevelopment	单一主体归宗改造	Village	The single entity signs a compensation contract with property owners and obtains equity interests without transferring ownership of the land; after demolition and compensation, the local government signs a land use right contract with the single entity

Source: Government release, HSBC

Where

Guangdong province has been the most proactive province in urban redevelopment projects. It is the pioneer in this field. Despite limited participation in shantytown redevelopment projects (0.56% of 2018's actual national construction starts), Guangdong has invested RMB1,580bn in urban redevelopment since 2009, 87% of which from non-government funding, redeveloping a total land area of 534m sqm, 9% of the province's built area (according to *Southcn.com* and *the Ministry of Housing and Urban-Rural Development (MOHURD)*).

Guangdong province is keen to carry out urban redevelopment projects as its top tier cities have a severe shortage of urban land areas. Cities such as Shenzhen, Guangzhou, Dongguan, Zhongshan, Foshan, and Zhuhai are already heavily developed with an average developed area ratio of 38% (measured by developed area of city construction over urban land area). Guangdong province's ratio came in substantially above the national average of 2%, which presents another incentive for the government to push forward these projects. In September 2019, Guangdong's Department of Natural Resources announced a three-year plan to step up efforts in urban redevelopment projects, targeting RMB500bn of total investment and 153m sqm of construction starts. The regional policy was announced in absence of wider nationwide guidelines.

Figure 13: Major cities' urban redevelopment plan for 2019-21

	Planned redevelopment area (mu)	As a % of total planned area in Guangdong	Developed area ratio^
Guangzhou	54,000	23%	25%
Foshan	40,000	17%	35%
Dongguan	21,000	12%	43%
Shenzhen	27,000	9%	50%
Zhuhai	9,000	4%	35%
Zhongshan	9,600	4%	39%
Guangdong	**230,000**	**100%**	**38%**
National			**2%**

Source: Government release, CEIC, HSBC
Note: ^Developed area ratio equals developed area of city construction over urban land area.

When

While the government first started to promote urban redevelopment projects in 2008, it is notable that the intensity of policy initiatives has picked up in recent years. **Figure 14** below provides a snapshot of key policy announcement.

Figure 14: Policy development of urban redevelopment projects

Apr 2020
National Development and Reform Commission (NDRC) pointed to urban redevelopment as a vital method to enhance the living and production environment in cities
Aug 2019
The NDRC encouraged upgrading industrial cities through the redevelopment of old factories
Feb 2019
Urban redevelopment was mentioned as a measure for urban-rural integration in the GBA plan
2016
The State Council issued guidance on the redevelopment of inefficiently used lands, promoting involvement of private capital
2016
Shenzhen proposed a 5-year plan (2016-20) for urban redevelopment
2015
Guangzhou and Shanghai announced policies on urban redevelopment; Guangzhou established the first urban renewal authority in China
2009
Guangdong launched "three old" (old town, old village and old factory) transformation; Shenzhen announced the guidance on urban redevelopment
2008
The State Council issued a circular to promote efficient and intensive use of land
1949
Urban redevelopment projects in China date back to the founding period of the country, such as the redevelopment of Hutong in Beijing

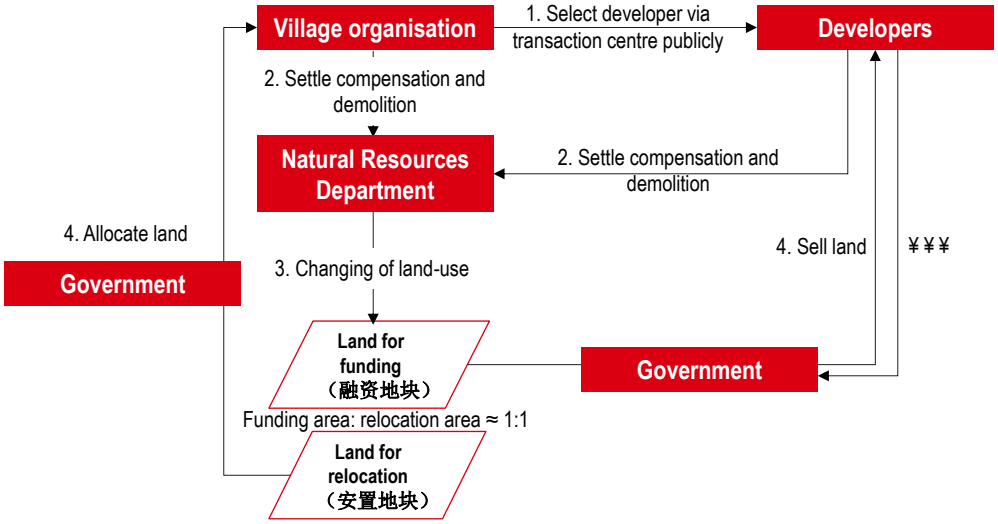
Source: Government release, HSBC

Who

Urban redevelopment projects involve three parties: the **government**, the **developer** and the **community.** A **local government's** role and objectives are clear: to prevent urban decay, upgrade infrastructure and ultimately transform old areas for provision of better living conditions. A developer's role is to help execute and the keen attitude towards participation lies with lucrative profitability. Whilst communities and villages involved play a more passive role in the process, residents are recipients of compensation and, as such, welcome urban renewal initiatives.

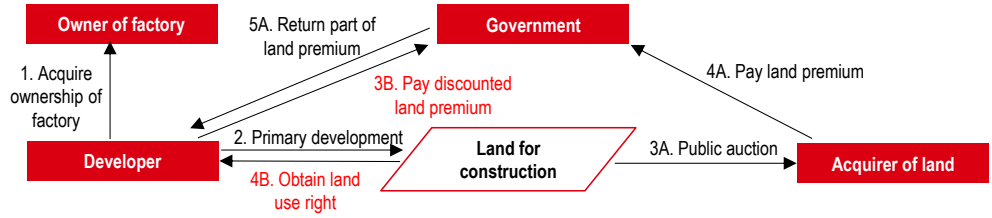
Figure 15 presents a schematic for a typical market-led old village redevelopment project where we highlight the key stakeholders involved. Before the developer acquires the land use right (LUR), it needs to pre-pay cash compensation and demolish old buildings. In the process, the nature of the land is changed via the Natural Resources Department from collective-owned to construction use. The ownership of the 'land for relocation' stays with the village organisation (previous owner of the land for urban renewal; a special form of public organisation), while the **developer** acquires the LUR of the 'land for funding' (融资地块) at a discounted price, which is slated for construction of residential housing to be launched for sale. Eventually, the developer is required to build housing on the relocation land first, before receiving any cash back through home sales on the land for funding.

Figure 15: Process flow for No. 6 – Village-enterprise cooperation (market-led)



Source: Government release, HSBC

Figure 16: Old factory redevelopment process

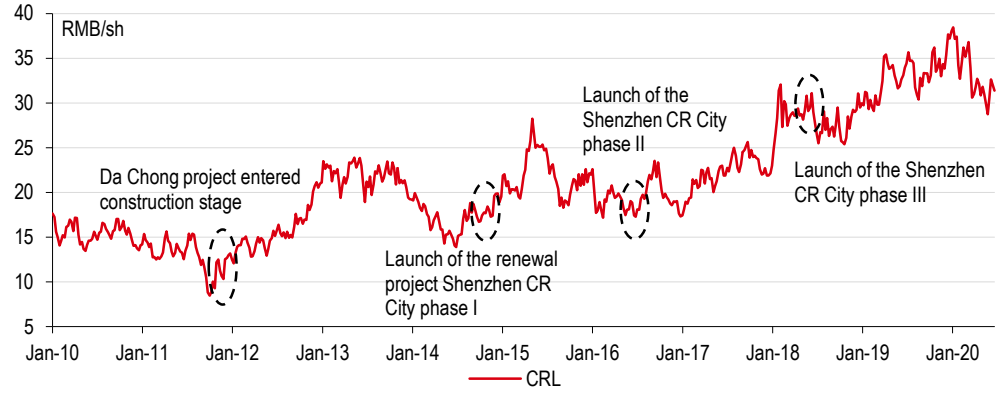


Source: HSBC

Why

While the motives and the incentives of different stakeholders vary, the process is intended to facilitate more efficient land use, bringing positive social and economic changes to the target region. As such, it is not surprising that tier-one cities in Guangdong province took the lead in this process as a more affluent economy. There are flagship urban redevelopment projects that we can point to as case studies that demonstrate the key benefits brought about by the process. Refer to page 13 for CRL's Da Chong project (later developed into *Shenzhen CR City*). The estimated total investment of the project amounted to RMB20bn and has significantly strengthened CRL's profitability profile from 2015 to 2019, with RMB36bn in revenue being recognised from the project. Importantly, the gross profit margin from this project was also meaningfully higher than that of other assets in CRL's portfolio, leading CRL to outshine its sector peers in terms of profitability. In our view, this was also a reason that had driven CRL's share price re-rating from cRMB10 to RMB30 (**Figure 17**).

Figure 17: CRL share price and Da Chong Village redevelopment timeline



Source: Bloomberg, HSBC

Developers: risk and reward

- Being profit-oriented, developer-led projects bring monetary benefits that strengthen a company's earnings profile
- The key risk is related to execution uncertainty, which brings cash flow and balance sheet issues
- With prudent balance sheet management, the rewards are seen to outweigh the risks

Reward: Lucrative profit and stronger brand

We believe urban redevelopment projects present good opportunities for developers to acquire land at low cost and to gain market share. The gross profit margins could be as high as 70%. In many instances, these projects cover a large land plot and involve the construction of community facilities that becomes local landmarks, an attraction to local residents and tourists. With lower land cost, developers are able to effectively redirect financial resources to improve building quality and standards by investing in project design, technologies and innovative construction processes. This should in turn improve the project's pricing power while strengthening the participating developer's brand equity.

For instance, the Huashan project in Jinan is a milestone in COLI's (688 HK, RMB25.25, Hold) urban redevelopment past experience. Covering an area of 12m sqm, the project contains 24 villages and over 1,700 enterprises around an iconic mountain and lake. COLI spent nearly five years turning the old villages into a modern town with a sufficient transportation network, and business and public services facilities in an attractive setting. This successful case has not only brought praise to COLI, but it helped the developer take a significant step forward to becoming an efficient city operator. The abilities to plan large-scale projects, reconciliate the interests of different parties and efficiently run a mixed-use real estate complex are seen as valuable skills and expertise that bodes well for the long-term development of the company.

Last, but not least, a developer's involvement in urban renewal projects is also seen to be an exercise to strengthen relationships with local governments, which improves the competitive advantage in bidding for future projects.

Risk analysis – if negotiations take too long

Execution risk: lengthy development cycle
It usually takes 4-6 years to complete a redevelopment project, while in a worst case it could take over 10 years. The bottleneck is compensation and resettlement, because every household has a common goal of maximising compensation, either in cash or in resettlement housing.

For villages with a long history, confirming the ownership and the actual area of a home can be a challenge and may lead to potential conflicts amongst household members. Disagreements on GFA present another risk and conflict between residents and the government. Coming to an agreement on compensation is considered the biggest obstacle. Ultimately, it is the government's execution ability that is key to driving a project's delivery. In some instances, failure to come to an agreement could lead to a project's suspension for an extended period, which presents an execution risk for the developer involved. This explains the lengthy development cycle of urban redevelopment projects.

Below we calculate the IRR's sensitivity to varying construction durations, considering that: 1) relocation buildings are generally required to be built before the construction of saleable units, and 2) the negotiation process is lengthy and uncertain. According to our estimates, albeit with a GP margin as high as 45%, the IRR may fall to c15% with a lengthy negotiation and relocation process of as long as seven years. Furthermore, the advantage of the high GP margin tends to fade as the IRR converges when project duration lengthens.

Figure 18: Sensitivity table of urban redevelopment project IRR profile

		Years to landbank inclusion				
		3	4	5	6	7
Gross profit margin	35%	23%	19%	16%	13%	12%
	40%	27%	22%	19%	15%	14%
	45%	31%	25%	21%	17%	15%
	50%	36%	29%	25%	19%	17%
	55%	42%	33%	28%	22%	19%

Source: HSBC estimates

Key companies and potential winners

- Extensive experience in urban redevelopment projects supports the successful execution of projects in the pipeline
- Times China has entered the harvesting phase with ample urban renewal projects successfully moving to the landbank, leading peers
- We see positive growth prospects at Times China, KWG, and Logan, all of which possess a large urban redevelopment project pipeline

Track record

A strong track record bodes well for a developer's ability to secure future projects, as it provides a vote of confidence on execution capabilities. At select projects in Guangdong province, a developer is required to have successfully completed three village redevelopment projects in order to participate in the tender process. The bar for competition has been set high, making a qualified developer's execution track record an important pre-requisite to winning future projects. From our analysis, **CR Land** and **Guangzhou R&F** stand out with substantial urban redevelopment experience (**Figure 21**), while we see significant potential at **Times China**, **KWG**, and **Logan**, which are rapidly ramping up their urban redevelopment project pipeline.

CR Land –benefitting from the most reputable and successful project
CR Land is well recognised for redeveloping town and factory projects since the early 2000s. Its urban redevelopment track record spans across several top tier cities, including Chengdu, Beijing, Wuhan, Shenzhen, etc. The 2008 movie *24 City,* by director Jia Zhangke, is a fictional account based on CR Land's urban redevelopment project in Chengdu. CRL's most reputable project is a village redevelopment project in Shenzhen – Da Chong Village. The success of this project set an industry standard and made significant contributions to CRL's revenue over the years. At the same time, the profit contribution of this project has also meaningfully lifted CRL's margin profile over the period.

The Da Chong Village (大冲村) project was branded *Shenzhen CR City*, the largest urban renewal project in Guangdong province. The project involves demolishing around 1,500 dilapidated homes, as well as relocating c70,000 residents. The estimated total investment amounts to RMB20bn, while CR Land has recognised cRMB36bn in revenue from this project in 2015-19, accounting for an aggregate 6.5% of total revenue during the period. (Figure 19). There are two remaining phases of the project scheduled for launch in the next few years. Despite a lengthy development cycle, starting in 2007, we believe the subsequent profit contribution appears to have paid off.

Figure 19: Shenzhen CR City's has contributed RMB36bn of revenue

Year	Shenzhen CR City booked revenue (RMBm)	Shenzhen CR City GFA (sqm)	Shenzhen CR City ASP (RMB/sqm)	CR Land revenue (RMBm)	CR City revenue contribution	Currency
2015	1,533	29,953	51,189	103,906	1.5%	HKD
2016	8,865	144,392	61,394	109,328	8.1%	HKD
2017	7,658	98,385	77,834	101,943	7.5%	HKD
2018	10,352	141,723	73,041	121,189	8.5%	RMB
2019	9,468	125,662	75,348	147,736	6.4%	RMB
Total	**35,908**	**540,115**	**63,611**	**549,755**	**6.5%**	

Source: Company data, HSBC
Note: 2015-17 revenue are in HKD and total numbers are calculated using HSBC FX rates.

Guangzhou R&F – Guangzhou urban redevelopment expert

The history of Guangzhou R&F is intertwined with urban redevelopment projects in Guangzhou. Since 1994, Guangzhou R&F has successfully redeveloped over 10 old factories in Guangzhou into residential projects, including factories that manufactured chemicals, copper, construction materials, fridges, etc. Guangzhou R&F rode on the wave of factory redevelopment projects to gain market share in the Guangzhou market. Besides factory redevelopment projects, it led the first village redevelopment project in Guangzhou (Liede Village) in the early 2000s.

Together with KWG and SHK (16 HK, HKD98.20, Buy), Guangzhou R&F (33.4% of stake) has transformed the auction-acquired Liede Village's (猎德村) commercial land plot into luxury apartments "Tianluan" (天銮) along with offices, a five-star hotel, and a high-end shopping mall. With the developers' contribution of RMB4.6bn to the land premium in late 2007, the local government is able to push forward the redevelopment project without fiscal support. According to *Guangzhou Daily*, there was a holdout on the plot after the developers acquired the land, which was resolved in early 2008. We believe Guangzhou R&F gained valuable experience in tackling resettlement issues at the village redevelopment project. The apartments launched in 2011 contributed profitability as well. At an AV of RMB8,100/sqm for the land plot, the "Tianluan" apartments achieved an ASP of RMB45,000/sqm.

Guangzhou R&F was the first private developer to lead a village redevelopment project in Guangzhou – Yangji Village (杨箕村). In 2011, the developer acquired the project at a total cost of RMB2.35bn (including construction cost and compensation for relocation). Unlike the Liede Village project, Guangzhou R&F was required to construct the relocation buildings for Yangji Village residents. Although the negotiations with villagers extended to August 2013, the developed residential project R&F Dongshan Xintiandi (富力东山新天地) contributed 7.1% in revenue in 2015-17.

Figure 20: Guangzhou R&F Dongshan Xintiandi has contributed RMB10.3bn of revenue

Year	Dongshan Xintiandi revenue booking (RMBm)	Dongshan Xintiandi GFA sold (sqm)	Implied ASP (RMB/sqm)	Revenue from property development (RMBm)	Dongshan Xintiandi revenue contribution
2015	5,386	133,588	40,317	40,744	13.2%
2016	4,347	109,884	39,564	49,489	8.8%
2017	534	11,306	47,211	53,709	1.0%
Total	**10,267**	**254,778**	**40,298**	**143,943**	**7.1%**

Source: Company data, HSBC

Figure 21: Urban redevelopment track record (including completed projects and converted projects)

Project	Project (Chinese)	City	Attributable GFA ('000 sqm)	Start year	Sales launch year	Type	Predecessor
Times China							
Times Mark	时代印记	Guangzhou	751	2010	2019	Village	萝岗红卫村
Tianhe Finance City Project		Guangzhou	99			Factory	金融城旧厂
Zengcheng Xiangjun Project		Guangzhou	317			Factory	广州增城翔骏
Conghua Laitai Project		Guangzhou	566			Factory	广州从化莱泰
Huangpu Chemical Factory Project		Guangzhou	169			Factory	广州黄埔化工
Times Realm	时代天境	Foshan	285	2019		Village	里水洲村
Chancheng Pump Factory Project		Foshan	506			Factory	佛山禅城水泵厂
Nanhai Lishui Caochang Project		Foshan	92			Village	
Auto Town Phase I		Foshan	280			Factory	佛山爱车小镇
Times Elegance	时代风华	Jiangmen	615			Factory	江门鹤山建豪
Zengcheng Fengding Factory		Guangzhou	495			Factory	
Nanhai Tanghong Factory		Foshan	90			Factory	佛山南海新亚
Times Merchants Tianxi	时代招商天禧	Foshan	125			Factory	佛山南海太平
Times North Shore	时代香海北岸	Zhongshan	100			Village	中山宥南村
KWG							
River Paradise in Nansha	南沙水恋	Guangzhou	63	2017	2019	Village	莲溪村
The Horizon in Nansha	叠翠峰	Guangzhou	19	2014	2017	Village	蕉门村
Tianhui Plaza Riviera (office)	天汇广场	Guangzhou	153	2003	2011	Village	猎德村
Logan							
Foshan Green Island Project	禅城绿岛湖	Foshan	710	2017		Factory	禅城绿岛湖
Huizhou Daya Bay	惠州大亚湾	Huizhou	1,800	2017		Factory	惠聪总部
Shenzhen Logan Headquarters	深圳龙光总部中心	Shenzhen	270	2017		Factory	深圳侨城东（康佳）
Zhuhai Acesite Centrium	珠海玖龙汇	Zhuhai	330	2016	2018	Factory	顺兴不锈钢厂工业厂房
Shekou Free Trade Zone Project	蛇口自贸区	Shenzhen	160	2016		Factory	利丰雅高
CRL							
Shenzhen CR City	深圳华润城	Shenzhen	905	2007	2014	Village	大冲村
Pingmenfu	苏州平门府	Suzhou	68		2012		
Shenyang CR City	沈阳万象城	Shengyan	250		2011	Stadium	辽宁省体育馆
Palace Glorious	华润紫云府	Hefei	255	2009	2009	Factory	开元轮胎厂
Hefei Top Mansion	合肥幸福里	Hefei	269	2008	2008	Factory	变压器厂
Chongqing Twenty Four City	重庆二十四城	Chongqing	1,600	2007	2008	Factory	九龙坡建设厂
Wuhan Central Park	武汉中央公园	Wuhan	441	2007	2008	Factory	汉钢北厂区
Chengdu Twenty Four City	成都二十四城	Chengdu	2,100	2005	2008	Factory	420 厂
Beijing Oak Bay	北京橡树湾	Beijing	702	2005	2006	Factory	三家毛纺企业
Shanghaitan Garden	上海滩花园	Shanghai	200	2002	2005	Village	董家渡聚居区
Guangzhou R&F							
Grand City	富颐华庭	Guangzhou	2,274	2016	2020	Village	茅岗村
R&F Yuexi	富力悦禧花园	Guangzhou	1,700	2015	2016	Village	笔村
R&F Dongshan Xintiandi	富力东山新天地	Guangzhou	270	2011	2013	Village	杨箕村
Tianhui Plaza/Tianluan	天汇广场/天銮	Guangzhou	464	2003	2011	Village	猎德村
R&F Peninsula Garden	富力半岛花园	Guangzhou	450		2006	Factory	建材厂
R&F Modern Plaza	富力现代城	Guangzhou	247		2004	Factory	锅炉厂
Tycoon Place	御龙庭	Guangzhou	89		2004	Factory	殡仪馆
Shunyi Garden	富力顺意花园	Guangzhou	138		2003	Factory	万宝冰箱厂
Sunshine Meiju	阳光美居	Guangzhou	150		2003	Factory	风机厂
R&F Square	富力广场	Guangzhou	600	1995	1996	Factory	铜材厂&同济化工厂
R&F New Residence	富力新居	Guangzhou	86	1994		Factory	嘉邦化工厂
R&F West Garden	富力环市西苑	Guangzhou	460			Factory	铜管厂
Aristocratic House	富力千禧花园	Guangzhou	153			Factory	硫酸厂

Source: Company data, HSBC
Note: Times China's projects are recently converted into landbank.

Future pipeline – three rising stars

Over the years developers have stepped up the disclosure of their future pipeline of urban redevelopment projects, as for some companies this has become an important growth driver. A common observation is that these projects are geographically concentrated in the Greater Bay Area (GBA), in line with stronger government efforts seen in Guangzhou, Shenzhen, Dongguan, Foshan and other cities in the area. Given the strong profit-generating nature of these projects, it is also apparent that developers have become more proactively engaged with villages and factories in an attempt to deepen their penetration in urban redevelopment projects.

Unlike normal development projects and investment properties, it is hard to forecast the timeline of urban redevelopment projects and the timing when a project can be added to a developer's landbank. The exposure itself provides an indication of a developer's future opportunities, assuming resident relocation proceeds smoothly. As discussed earlier, the biggest uncertainty lies with the timing of execution, which lacks clarify, impacting cash flow and profit recognition.

Our assessment of a developer's future growth potential stemming from urban redevelopment projects is based on the disclosure of saleable resources and area. Given these are unaudited figures, disclosure standards can vary among developers. The key is to recognise that the pipeline of urban renewal projects has not yet been added to the landbank and that the projects should be converted in due course. Once they have been added to the landbank, we can ascribe value to the projects when calculating our NAV estimate, while taking it into account our projections of future earnings.

We find that **Times China** is best positioned to benefit from its urban redevelopment pipeline. According to our estimates, its saleable resources are equivalent to 8x its FY19 contracted sales. **KWG** also stands out with 20 old village renewal projects, most of which are located in Guangzhou where the potential saleable resources are around 6.8x its FY19 contracted sales. **Logan** also possesses great potential, in our view, focusing on factory redevelopment projects concentrated in the GBA with potential saleable resources of 4.2x its FY19 contracted sales.

Figure 22: Urban redevelopment project pipeline

Company	Potential GFA as of end-2019 (m sqm)	Ratio to total landbank as of end-2019	Urban renewal saleable resources as of end-2019 (RMBbn)	Compare to 2019 contracted sales	Implied ASP (RMB/sqm)	Location of urban renewal projects
Times China	43	187%	645	8.2x	15,000^^	GBA
KWG	14	83%	585	6.8x	41,786	GBA
Logan	21	58%	401	4.2x	19,076	95% in GBA
CRL	31	53%	465	1.9x	15,000^^	98% in GBA, 71% in Guangzhou and Shenzhen
Aoyuan*	14	32%	226	1.9x	15,860	
Agile	6	12%	200	1.7x	33,333	GBA, Beijing, Taiyuan, Xi'an, Tianjin, Zhengzhou
GZ R&F	40	72%	200	1.4x	NA	60% in GBA, Taiyuan, Xi'an
CG^	14	5%	199	0.4x	14,236	Shenzhen and other cities
CIFI^	6	15%				GBA

Source: Company data, HSBC
Note: *Company not under our coverage. ^CG and CIFI's numbers are from 1H19. ^^Times China and CRL's saleable resources are estimated by assuming RMB15,000/sqm of ASP, which is the average ASP in 2018-1H20 for major urban redevelopment companies. GBA – Greater Bay Area. NA – Not applicable/available.

Times China – entering the harvest phase

Times China entered the urban redevelopment business in 2010, when it entered into an agreement to redevelop Hongwei Village (红卫村) in Guangzhou. The company started to convert urban renewal projects into its landbank in 2018. In 2019, 46% of Times' new landbank was sourced from these projects, one important step ahead of peers. As such, we believe urban redevelopment project will be a major potential share price catalyst for the company to break into the RMB100bn sales league, potentially by FY21. Meanwhile, the c35-40% gross margin of

Times China's urban redevelopment projects, above its FY19 overall GPM of 29%, also presents a strong investment appeal. The company expects up to 10% of core profit contribution from urban redevelopment projects in FY20.

KWG – learning from the best in class

As a GBA developer with the second largest urban redevelopment saleable resources in our coverage universe, KWG has accumulated valuable experience through its participation in several famous village redevelopment projects in Guangzhou. The company selected an opportune entry point by cooperating with regional urban redevelopment specialists, including Guangzhou R&F and Fineland, in several Guangzhou village projects. We believe the company will be able to apply its past success to future projects, giving it an edge over other developers striving to further strengthen their footprint in the urban redevelopment projects.

Logan – expect a stable earnings contribution from urban renewal projects

Logan is a GBA developer that has been converting urban renewal projects into its landbank in 2019. In its urban redevelopment pipeline, it has a 50:50 proportion of old factories vs old villages. Old factory projects typically are simpler to execute due to fewer counterparties and tend to have a shorter conversion period. The developer continues to rely on urban redevelopment projects as a source of new landbank, which typically carry a decent gross margin level. In 2020-22, Logan targets to convert more than RMB30bn of (in terms of sellable value) urban renewal projects into its landbank every year. For 2020-21, it will include Shenzhen Qiaocheng East (RMB30bn – already converted) and the Huizhou Daya Bay project (RMB28bn – in progress) in its landbank. Logan expects urban redevelopment projects to contribute c20% to core profit annually in 2020-22.

ESG considerations

- Developers need to watch out for demolition waste disposal resulting from urban redevelopment projects
- Urban redevelopment projects help to resolve the social issues behind housing affordability, while improving people's living conditions
- Governance issues are tied to the perceived risk of corruption and bribery, given the parties involved in the negotiation process

Environmental considerations – mitigate demolition waste

Urban renewal projects involve the demolition and the reconstruction of old villages and factories, which results in waste generation that negatively impacts the environment. One way to alleviate the impact is to sort and recycle waste for use in construction. As such, developers are urged to properly dispose of demolition waste when carrying out urban redevelopment projects. According to *China Construction Journal*, there are c200 construction waste disposal sites in the country as of 2019, with an annual processing capacity of 187m tons. The availability of waste disposal sites serves to facilitate construction waste management, which can be more prudently considered among real estate developers.

Social considerations – improve people's living condition

In *Asia Real Estate: ESG Integrated: 10 questions*, 8 June 2020, we discussed that developers have contributed to the development of affordable and rental housing to help address the social issues associated with housing affordability. In the report, we also highlighted urban renewal as another area through which developers can contribute to society. The common goal is to help improve people's living conditions. In Guangdong province, developers are required to resettle existing village residents before they can start construction of homes for sale. In addition, urban redevelopment facilitates the progress of urbanisation and improves urban landscapes. Indeed, urban renewal presents a win-win situation to both developers and village residents, where companies are able to acquire landbank at a lower cost.

Governance – perceived risk of potential corruption and bribery

Given the three key stakeholders involved – developers, local governments and residents – corruption and bribery is a perceived risk during compensation negotiations. In 2012, a village committee chairman in Shenzhen came under the spotlight for potential wrongdoing associated with an urban renewal project. Mr. Zhou Weisi, the chairman, was prosecuted for receiving bribes tied to urban redevelopment projects, according to *Information Times*, 10 October 2018).

Appendix

Figure 23: Urban renewal policies

Date	Policy	Content	Source
Jul 2020	Shenzhen Urban Renewal Regulations	Unify the rules and standards set out in the various policies announced in the past years, tackling the delay in property ownership confirmation, negotiations for compensation and building demolition	深圳经济特区城市更新条例（草案）
Jul 2020	Three-year plan for old village redevelopment in Guangzhou	A total of 66 old villages will be demolished and relocated in the coming three years; specifically, 21, 28 and 17 villages will be demolished in 2020, 2021 and 2022, with GFA of 10.7m sqm, 15.8m sqm, and 6.3m sqm, respectively	广州市黄埔区、广州开发区决胜三年完成旧村拆迁攻坚任务工作方案
Sep 2019	Guidance on land price for urban renewal project in Zhuhai	Provided guidance on the land price developers need to pay for different types of redevelopment projects; for old village redevelopment projects, developers would need to pay 60% of the appraisal value for land plots, if not meeting conditions on plot ratio and usage	珠海市城市更新项目地价计收办法的通知
Sep 2019	Guangdong's guidance on deepening reform to accelerate urban redevelopment	Optimise regulations and simplify the procedures for application; provide support such as government grants, lower the land cost, etc.	广东省人民政府关于深化改革加快推动"三旧"改造促进高质量发展的指导意见
Sep 2019	Guangdong's three-year plan for urban redevelopment	To redevelop 230,000 mu of land in the province, with total investment exceeding RMB500bn (15% from local fiscal budgets and 85% from corporates)	广东省深入推进"三旧"改造三年行动方案（2019－2021 年）
Mar 2019	General Plan for Comprehensive Improvement of Old Village in Shenzhen (2019-25)	55m sqm for comprehensive improvement, 56% of the targeted area; villages in circled area must not be demolished and reconstructed	深圳市城中村综合整治总体规划（2019-2025）
Feb 2018	Management of Urban Redevelopment Unit (Demolishing and reconstructing)	Units with a plot ratio of more than 2.5 should not be demolished; units moved out from general plan of less than 3 years cannot be added back	深圳市拆除重建类城市更新单元计划管理规定
Dec 2016	Temporary Measures to Improve Urban Redevelopment	Residential units must be older than 20 years, industrial/commercial older than 15 years to apply for redevelopment; scattered residential area (less than 10,000 sqm) can apply when 100% of home owners agree; 20-45% of land area will be transferred to the government; 15-20% of GFA should be talent housing/affordable housing	关于加强和改进城市更新实施工作暂行措施的通知
Nov 2016	The 13th 5-year Plan for Urban Redevelopment in Shenzhen (2016-20)	12.5m sqm of demolishing and reconstructing (GFA of 46m sqm), 17.5m sqm of non-reconstructing; 6.5m sqm of talent/affordable housing	深圳市城市更新"十三五"规划
Dec 2015	Guidance on Urban Redevelopment in Guangzhou	The first city to propose "minor redevelopment", which doesn't include demolition	广州市城市更新办法
Feb 2012	Detailed Instructions on Urban Redevelopment in Shenzhen	No less than 15% of the land must be built for public buildings transferred to the government; District government should make compensation and relocation plans and invite tenders after the plan is signed by over 90% of home owners; the project becomes valid after all home owners sign the compensation and relocation agreement with the developer	深圳市城市更新办法实施细则
Dec 2009	Guidance on Urban Redevelopment in Shenzhen	Urban redevelopment is applied by units, including demolishing and reconstructing and comprehensive improvement	深圳市城市更新办法

Source: Government release, HSBC

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Company section

Times China (1233 HK)

BUY

TARGET PRICE (HKD)
19.20

SHARE PRICE (HKD)
14.62
(as of 10 July 2020)

UPSIDE/DOWNSIDE
+31%

MARKET DATA

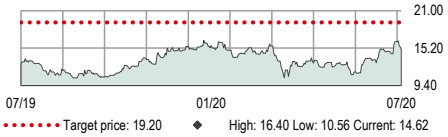
Market cap (HKDm)	28,389	Free float	34%
Market cap (USDm)	3,663	BBG	1233 HK
3m ADTV (USDm)	9	RIC	1233.HK

FINANCIALS AND RATIOS (RMB)

Year to	12/2019a	12/2020e	12/2021e	12/2022e
HSBC EPS	2.87	3.23	3.81	4.49
HSBC EPS (prev)	2.87	3.23	3.81	4.49
Change (%)	0.0	0.0	0.0	0.0
Consensus EPS	2.77	3.28	3.89	4.61
PE (x)	5	4	3	3
Dividend yield (%)	6	7	9	10

Source: Refinitiv Datastream, Bloomberg, HSBC estimates

52-WEEK PRICE



Source: HSBC estimates, Refinitiv IBES

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On its pathway of re-rating

As a decent GBA developer, Times China has historically traded at a lower valuation compared to many GBA peers, given its small size. We believe Times China's valuation will climb the quality ladder and catch up with similar peers (such as KWG and Logan), given its solid fundamentals: (1) leading GBA exposure, (2) sound track record and ample pipeline of urban redevelopment projects, and (3) strong probability profile with one of the highest ROE among its peers. As a first mover in the urban redevelopment segment, Times China is differentiated by its leading position in the urban redevelopment business, gradually building up its edge, which should ensure sufficiency and quality of its landbank in the long term. Despite the recent share price weakness in anticipation of subdued interim results, given the spin-off of the property management business and the backload of urban redevelopment revenue in 1H20, we are constructive for the full-year 2020 and believe Times China will be the key beneficiary in the medium to long term of the accelerated urban renewal progress.

2020 conservative target leaves room for a beat

Although the 5% contracted sales growth target for 2020 was a disappointment in March, we believe the conservative target leaves room for a beat and the potential pick-up in contracted sales after COVID-19 may become a catalyst for share price performance. Times China has delivered a strong track record by beating its sales targets in the past five years, while more sales launch are tilted to 2H, especially the fourth quarter.

Valuation and risks

We derive our target price of HKD19.20, based on our target NAV discount of 47% (0.25 SD above the historical mean) applied to our NAV estimate of HKD36.30/share. We believe Times China's valuation should play catch up to GBA peers and our target price implies a 5.3x FY20e PE and a 6% dividend yield. We have a Buy rating on Times China. **Key downside risks:** delays to urban redevelopment conversions; slower-than-expected sales momentum; lower-than-expected profitability of urban redevelopment projects; restrictive housing market policies; and regulatory and macro uncertainties.

Financials & valuation: Times China

Buy

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (RMBm)				
Property development revenue	39,080	46,558	56,379	67,671
Urban redevelopment business	2,168	2,818	3,522	4,227
Other revenue	1,186	553	664	797
Total revenue	42,433	49,929	60,565	72,695
Cost of sales	(29,998)	(35,726)	(44,163)	(53,190)
Gross profit	12,436	14,203	16,402	19,504
Selling & Admin expenses	(2,767)	(2,997)	(3,622)	(4,319)
Operating profit/EBIT	9,841	11,206	12,780	15,185
Net interest	(726)	(586)	(642)	(712)
Share of profit from asso.	1,209	1,459	1,926	2,242
Revaluation surplus	16	0	0	0
PBT	10,339	12,079	14,064	16,715
Taxation	(4,779)	(5,347)	(5,873)	(6,983)
Minority interests	(348)	(454)	(604)	(720)
Net profit	5,213	6,278	7,586	9,013
Core Profit	5,470	6,278	7,586	9,013
Cash flow summary (RMBm)				
Cash flow from operations	789	205	398	836
Capex	(344)	(387)	(407)	(428)
Other investing activities	(13,898)	(8,091)	(9,095)	(10,100)
Net change in cash	2,325	990	2,490	2,832
Cash at the beginning	23,374	25,875	26,865	29,355
Cash and bank balances at the end	25,875	26,865	29,355	32,187
Balance sheet summary (RMBm)				
Share capital	155	155	155	155
Reserves and retained earnings	18,933	23,571	29,274	35,732
Shareholders' funds	19,087	23,725	29,428	35,887
Long-term liabilities	35,972	43,774	50,408	58,022
Minority interests	16,617	20,571	25,176	30,096
Total capital employed	73,096	89,560	106,576	125,648
Fixed assets	4,585	4,862	5,159	5,476
Current assets	141,256	162,119	186,991	215,624
Total assets	161,098	184,374	212,306	244,540

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
y-o-y % change				
Revenue	23%	18%	21%	20%
Operating profit	9%	14%	14%	19%
PBT	24%	17%	16%	19%
Reported net profit	18%	20%	21%	19%
HSBC core profit	30%	15%	21%	19%
Ratios (%)				
ROIC ex-exceptional	12%	11%	11%	11%
ROAE ex-exceptional	30%	29%	29%	28%
ROAA ex-exceptionals	3%	3%	4%	4%
Gross margin	29%	28%	27%	27%
Core profit margin	13%	13%	13%	12%
Interest cover ex-exceptional (x)	2.1	2.6	2.8	3.0
Net debt/equity (total equity)	77%	76%	75%	74%
Net debt/equity (ex. MI, PCS as debt)	143%	142%	139%	136%
Per share data (RMB)				
Reported EPS (fully diluted)	2.73	3.23	3.91	4.64
HSBC EPS (fully diluted)	2.87	3.23	3.91	4.64
DPS (RMB)	0.84	0.97	1.17	1.39
BV (RMB)	9.83	12.22	15.16	18.48

Source: Company data, HSBC estimates

NAV breakdown

	(RMBm)	(HKD/share)	% of GAV
Development properties			
Residential	107,465	65.8	96%
Investment properties			
Office/retail	3,952	2.4	4%
GAV	111,417	68.2	**100%**
Net debt (excluding restricted cash)	(33,798)	(20.7)	
Outstanding land premium	(4,600)	(2.8)	
Outstanding LAT	(13,766)	(8.4)	
Fair value NAV	**63,206**	**36.3**	

Source: HSBC estimates

ESG metrics

Environmental Indicators	12/2019a
GHG emission intensity*	1.3
Energy intensity*	2.3
CO_2 reduction policy	Yes
Social Indicators	**12/2019a**
Employee costs as % of revenues	3.8
Employee turnover (%)	22
Diversity policy	Yes

Governance Indicators	12/2019a
No. of board members	9
Average board tenure (years)	8
Female board members (%)	11
Board members independence (%)	33

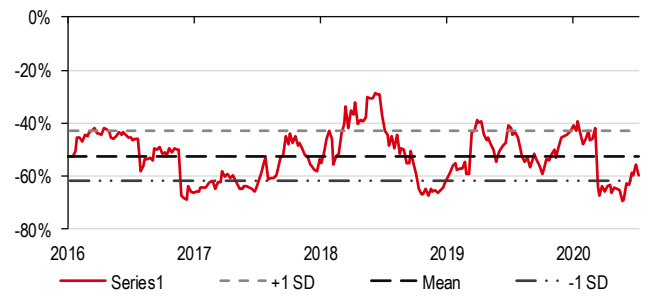
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

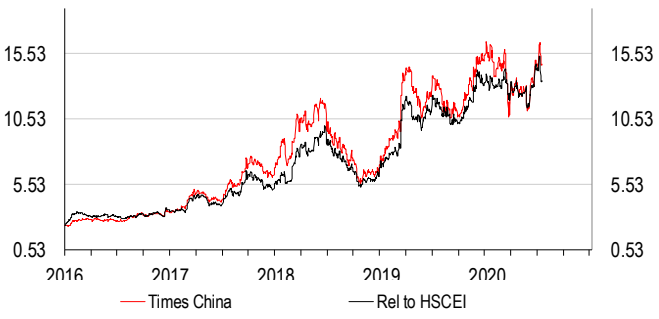
Share price (HKD)	14.62	Free float	34%
Target price (HKD)	19.20	Sector	REMD
RIC (Equity)	1233.HK	Country/Region	China
Bloomberg (Equity)	1233 HK	Analyst	Max Liang, CFA
Market cap (USDm)	3,663	Contact	+852 2996 6629

NAV discount



Source: Company data, Refinitiv Datastream, HSBC estimates

Price relative



Note: Priced at close of 10 July 2020
Source: HSBC

KWG Group (1813 HK)

HOLD

TARGET PRICE (HKD)
13.10

SHARE PRICE (HKD)
13.46
(as of 10 July 2020)

UPSIDE/DOWNSIDE
-2.7%

MARKET DATA

Market cap (HKDm)	42,763	Free float	38%
Market cap (USDm)	5,517	BBG	1813 HK
3m ADTV (USDm)	14	RIC	1813.HK

FINANCIALS AND RATIOS (RMB)

Year to	12/2019a	12/2020e	12/2021e	12/2022e
HSBC EPS	1.64	1.95	2.23	2.62
HSBC EPS (prev)	1.64	1.95	2.23	2.62
Change (%)	0.0	0.0	0.0	0.0
Consensus EPS	1.65	2.02	2.47	2.97
PE (x)	7.4	6.2	5.4	4.6
Dividend yield (%)	6.3	6.4	7.3	30.2
EV/EBITDA (x)	2.3	2.9	2.8	2.2
ROE (%)	16.0	16.4	16.9	17.7

Source: Refinitiv Datastream, Bloomberg, HSBC estimates

52-WEEK PRICE

Source: HSBC estimates, Refinitiv IBES

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Large urban renewal pipeline to unleash potential

As we have pointed out in the section *Key companies and potential winners*, KWG has obtained valuable knowledge and experience through cooperating with Guangzhou's urban redevelopment experts in several village redevelopment projects in the past. We are constructive on KWG's growth outlook with its abundant urban renewal project pipeline. As of end-2019, the 26 urban renewal projects can potentially contribute RMB585bn of saleable resources upon inclusion in landbank, the highest in our coverage universe apart from Times China. The company is revving up its progress as it plans to sign agreements with five or more projects this year.

Key catalysts remain

We have downgraded our rating on KWG on the back of valuation consideration in early June (see *China Real Estate – Avoiding the winner's curse*, 9 June). However, we believe key catalysts remain: 1) targeting 20% y-o-y growth in FY20 contracted sales, substantially leading peers. The company is also targeting an ambitious long-term sales target of RMB200bn, sending a positive signal to the market, 2) substantial landbank exposure in the GBA (42% of its 2020 saleable resources), 3) strong pipeline of UR projects to become a diversified source of landbank with low cost, painting strengthened earnings prospects.

Valuation and risks

We derive our unchanged fair value target price of HKD13.10 based on an unchanged target NAV discount of 74%, at 0.25 SD below the historical mean, applied to our unchanged NAV estimate of HKD50.20/share. With our target price implying c3% downside from the current share price, we reiterate our Hold rating for KWG. **Key upside risks:** potential growth, GBA exposure, and a potential spin-off of its property management business. **Key downside risks:** uncertainties over joint venture projects, overly aggressive long-term profit guidance, lower-than-expected ASPs, overly aggressive land acquisitions, and uncertainties related to macroeconomic and property-specific policies.

Financials & valuation: KWG Group

Hold

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (RMBm)				
Property sales revenue	22,762	27,295	32,124	37,594
Property Investment & other revenue	2,194	2,701	3,013	3,379
Turnover	24,956	29,997	35,137	40,974
Cost of sales	(17,090)	(20,726)	(24,265)	(28,333)
Gross profit	7,866	9,270	10,872	12,640
Selling & admin. expenses	(2,733)	(3,026)	(3,213)	(3,502)
Other income/gains	2,854	2,567	1,986	2,046
Operating profit	7,987	8,811	9,645	11,184
Finance costs	(1,531)	(2,046)	(2,133)	(2,202)
Associates & JCE's	3,447	3,717	4,436	5,213
PBT	13,619	10,483	11,947	14,196
Taxation	(3,563)	(3,937)	(4,382)	(4,657)
Minority interests	(250)	(370)	(482)	(1,225)
Net profit	9,806	6,175	7,084	8,314
HSBC core profit	5,215	6,175	7,084	8,314
Cash flow summary (RMBm)				
Cash flow from operations	7,136	5,884	5,001	3,976
Capex	(11,206)	(4,005)	(4,080)	(4,160)
Cash flow from invt. activities	(17,470)	(1,489)	(3,525)	(2,903)
Net cash used in fin. activities	6,024	(292)	4,160	1,158
Net change in cash	(4,309)	97	1,556	(1,930)
Cash at the beginning	52,578	48,269	48,367	49,923
Cash at the end	48,269	48,367	49,923	47,993
Balance sheet summary (RMBm)				
Shareholders' funds	35,795	39,548	44,161	49,641
Minority interests	2,448	2,818	3,299	4,524
Long-term liabilities	61,850	71,669	76,564	76,855
Total capital employed	104,651	118,593	128,583	135,579
Fixed assets	33,674	37,550	41,310	45,102
Current assets	129,745	137,047	159,453	164,551
Total assets	214,323	230,663	262,790	279,796
Cash flow from operations	7,136	5,884	5,001	3,976

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
y-o-y % change				
Revenue	234%	20%	17%	17%
Operating profit	142%	10%	9%	16%
PBT	153%	-23%	14%	19%
Reported EPS	142%	-37%	15%	17%
HSBC EPS	36%	18%	15%	17%
Ratios (%)				
ROIC ex exceptionals	7%	8%	8%	8%
ROAE ex exceptionals	16%	16%	17%	18%
ROAA ex exceptionals	3%	3%	3%	3%
Gross margin	32%	31%	31%	31%
Core profit margin	21%	21%	20%	20%
EBITDA/interest (x)	1.3	1.3	1.5	1.7
Net debt/equity (incl. restricted cash)	81%	80%	81%	82%
Net debt/equity (incl. restricted cash, total equity)	75%	75%	75%	75%
Per share data (RMB)				
Reported EPS (fully diluted)	3.09	1.95	2.23	2.62
HSBC EPS (fully diluted)	1.64	1.95	2.23	2.62
DPS (RMB)	0.76	0.78	0.89	3.67
BV (RMB)	11.3	12.5	13.9	15.6

Source: Company data, HSBC estimates
^ As KWG has substantial amount of JV projects which will reflect in share of JCE profit, the core profit margin is distorted and not always a meaningful indicator.

KWG: NAV breakdown

	(RMBm)	(HKD/share)	% of GAV
Development properties:			
Office/retail	896	0.3	0.5%
Residential	168,163	59.5	84.9%
Investment properties:			
Office/retail	19,065	6.7	9.6%
Residential	1,149	0.4	0.6%
Hotel properties under development	8,912	3.2	4.5%
Net debt (excluding restricted cash)	(31,675)	(11.2)	
Outstanding land premium	(7,100)	(2.5)	
Outstanding LAT	(17,348)	(6.1)	
Fair value NAV	**142,062**	**50.2**	**100.0%**

Source: HSBC estimates

ESG metrics

Environmental indicators	12/2018a
GHG emission intensity*	2.5
Energy intensity*	9.3
CO_2 reduction policy	Yes
Social indicators	**12/2018a**
Employee costs as % of revenue	15.9
Employee turnover (%)	27
Diversity policy	Yes

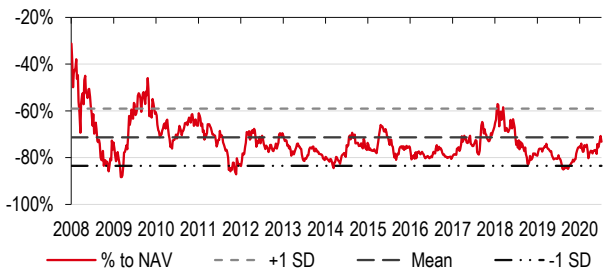
Governance indicators	12/2018a
No. of board members	8
Average board tenure (years)	NA
Female board members (%)	0
Board members independence (%)	37.5

*GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD'000
Source: Company data, HSBC

Issuer information

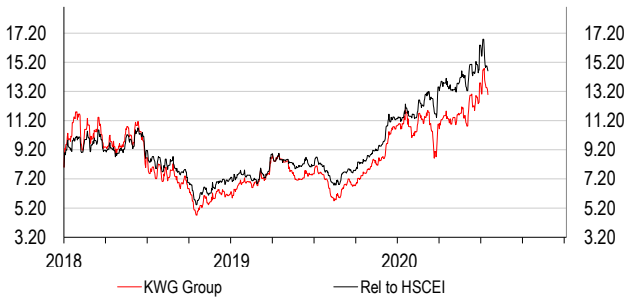
Share price (HKD)	13.46	Free float	38%
Target price (HKD)	13.10	Sector	REMD
RIC (Equity)	1813.HK	Country/Region	China
Bloomberg (Equity)	1813 HK	Analyst	Michelle Kwok
Market cap (USDm)	5,517	Contact	+852 2996 6918

NAV discount



Source: Company data, Refinitiv Datastream, HSBC estimates

Price relative



Note: Priced at close of 10 July 2020
Source: HSBC

Logan Property Holdings (3380 HK)

BUY

TARGET PRICE (HKD)
17.80

SHARE PRICE (HKD)
14.48
(as of 10 July 2020)

UPSIDE/DOWNSIDE
+22.9%

MARKET DATA

Market cap (HKDm)	79,923	Free float	22%
Market cap (USDm)	10,312	BBG	3380 HK
3m ADTV (USDm)	8	RIC	3380.HK

FINANCIALS AND RATIOS (RMB)

Year to	12/2019a	12/2020e	12/2021e	12/2022e
HSBC EPS	1.85	2.25	2.79	3.35
HSBC EPS (prev)	1.85	2.25	2.77	3.30
Change (%)	0.0	0.0	0.8	1.4
Consensus EPS	1.77	2.17	2.63	3.12
PE (x)	7.1	5.8	4.7	3.9
Dividend yield (%)	5.7	6.9	8.5	10.2

Source: Refinitiv Datastream, Bloomberg, HSBC estimates

52-WEEK PRICE

Source: HSBC estimates, Refinitiv IBES

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Urban redevelopment pipeline mainly located in four GBA cities

Logan is a GBA company and a veteran in the urban redevelopment segment. Among its urban redevelopment pipeline, it has a roughly a 50:50 proportion of old factory vs old village. Old factory projects typically are simpler to execute due to fewer counterparties and tend to have a shorter conversion period. Its redevelopment pipeline is mainly located in the GBA. Dongguan (24%), Shenzhen (22%), Zhuhai (17%) and Guangzhou (10%) account for more than 70% of saleable resources in its redevelopment pipeline.

Redevelopment is a major driver of profitability and long-term growth

Riding on the resilient residential market in the GBA, Logan's contracted sales have been strong in 1H20 with 12% y-o-y growth and completing 42% of its FY20 target. It has exceeded the sector's flat y-o-y growth and 41% completion target during the same period of time. The company continues to rely on urban redevelopment projects as a source of new landbank, which typically carries a decent gross margin level. Logan expects urban redevelopment projects to contribute c20% to core profit annually in 2020-22.

Valuation and risks

We reiterate our Buy rating with a higher target price of HKD17.80 (from HKD14.30), based on a narrower target discount of 47% at 0.25 SD above the historical mean (from 50%, 0.25 SD below the historical mean), applied to our higher NAV of HKD33.60/share (from HKD28.60/share). We increase our NAV estimate after incorporating new land purchases of 4.5m sqm since 4Q19, which also raises our earnings estimates by 1% in both FY21e and FY22e. In February 2020, we expanded Logan's target discount due to the potential impact from land exposure to regions with sales restrictions. We believe it is the right time to narrow Logan's target discount by 0.5 SD now since the company has fully recovered from the impact of sales disruption during COVID-19. It recorded 12% y-o-y growth (vs the sector's flat y-o-y growth) in 1H20 contracted sales, which is among the best in our sector coverage. Our target price implies upside of c23% and we have a Buy rating as we continue to like Logan for its high earnings visibility. **Key downside risks:** lower-than-expected sales; slower-than-expected development and fierce competition in the GBA; execution risk in relation to new market coverage; and uncertainties related to macroeconomic and property-specific policies.

Financials & valuation: Logan Property Holdings

Buy

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (RMBm)				
Property sales revenue	45,782	63,333	76,736	94,006
Property investment & other revenue	11,698	15,274	19,856	22,880
Turnover	57,480	78,607	96,592	116,885
Cost of sales	(39,347)	(54,061)	(66,645)	(81,127)
Gross profit	18,133	24,546	29,947	35,758
Selling & admin expenses	(2,808)	(3,289)	(4,016)	(5,018)
Other gains & misc	2,047	2,061	1,669	1,677
Operating profit/EBIT	17,373	23,318	27,599	32,417
Net interest	(1,366)	(1,620)	(2,034)	(2,263)
Share of profit from associate/JCE	(176)	(194)	647	183
Non-operating profit/loss	1,622	0	0	0
PBT	17,452	21,504	26,211	30,337
Taxation	(5,889)	(8,336)	(10,078)	(10,870)
Minority interests	(294)	(671)	(661)	(930)
Net profit	11,269	12,497	15,472	18,537
Reported core profit	10,314	12,497	15,472	18,537
Adj core profit	10,020	12,332	15,307	18,372
Cash flow summary (RMBm)				
Cash flow from operations	(1,451)	(1,520)	(1,736)	(1,822)
Changes in investments	(3,377)	(3,227)	(3,223)	(3,203)
Net cash from financing activities	9,195	8,396	4,997	6,586
Net change in cash	4,368	3,648	37	1,561
Cash at the beginning	28,452	32,734	36,383	36,420
Cash at the end	32,735	36,383	36,420	37,981
Balance sheet summary (RMBm)				
Shareholders' funds (excluding PCS)	31,831	40,054	50,379	62,579
Long-term liabilities	42,445	55,055	63,945	76,335
Minority interests	8,800	9,471	10,132	11,062
Fixed assets	27,496	30,563	33,522	36,485
Other non-current assets	19,289	19,095	19,742	19,925
Current assets	159,224	201,226	260,465	312,935
Total assets	206,010	250,885	313,729	369,344

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Y-o-y % change				
Revenue	30%	37%	23%	21%
Operating profit	25%	34%	18%	17%
Reported EPS	51%	1%	24%	20%
HSBC EPS	43%	23%	24%	20%
Ratios (%)				
ROIC ex exceptionals	16%	17%	16%	15%
ROAE ex exceptionals	31%	31%	30%	29%
ROAA ex exceptionals	5%	5%	5%	5%
Gross profit margin	32%	31%	31%	31%
Core profit margin	17%	16%	16%	16%
Interest cover ex exceptionals (x)	4.2	4.8	5.0	4.8
Net debt/equity (incl. restricted cash, PCS as debt, total equity)	77%	67%	76%	84%
Net debt/equity (incl. restricted cash, PCS as debt)	98%	83%	91%	99%
Per share data (RMB)				
Reported EPS (fully diluted)	2.23	2.25	2.79	3.35
HSBC EPS (fully diluted)	1.83	2.25	2.79	3.35
DPS (HKD)	0.83	1.01	1.25	1.50
BV	5.80	7.30	9.18	11.40

Source: Company data, HSBC estimates

Logan: NAV breakdown

	(RMBm)	(HKD/share)	% of GAV
Development properties			
Residential	178,105	36.4	88%
Commercial	16,013	3.3	8%
Investment properties			
Residential	7,593	1.6	4%
Net debt (excluding restricted cash)	(33,283)	(6.8)	
Outstanding LAT	(4,023)	(0.8)	
Outstanding land premium	0	0.0	
Fair value NAV	**164,404**	**33.6**	**100%**

ESG metrics

Environmental Indicators	12/2018a
GHG emission intensity*	4.1
Energy intensity*	7.4
CO_2 reduction policy	Yes
Social Indicators	**12/2018a**
Employee costs as % of revenues	2.7
Employee turnover (%)	NA
Diversity policy	Yes

Governance Indicators	12/2018a
No. of board members	8
Average board tenure (years)	5.1
Female board members (%)	25
Board members independence (%)	37.5

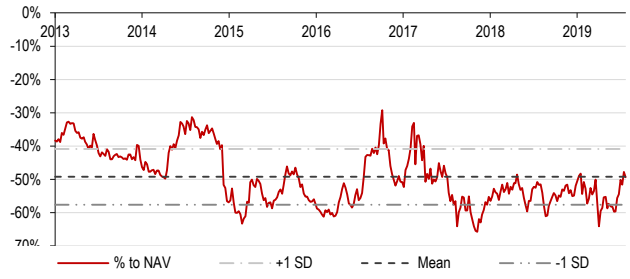
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

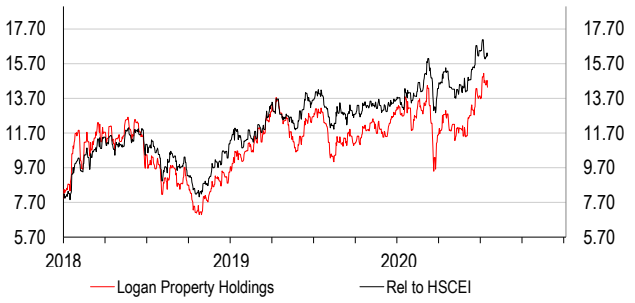
Share price (HKD)	14.48	Free float	22%
Target price (HKD)	17.80	Sector	REMD
RIC (Equity)	3380.HK	Country/Region	China
Bloomberg (Equity)	3380 HK	Analyst	Albert Tam
Market cap (USDm)	9,771	Contact	+852 2822 4395

NAV discount



Source: Company data, Bloomberg, HSBC estimates

Price relative



Note: Priced at close of 10 July 2020
Source: HSBC

China Resources Land (1109 HK)

BUY

TARGET PRICE (HKD)
40.90

SHARE PRICE (HKD)
35.05
(as of 10 July 2020)

UPSIDE/DOWNSIDE
+16.7%

MARKET DATA

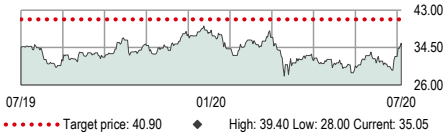
Market cap (HKDm)	249,939	Free float	39%
Market cap (USDm)	32,247	BBG	1109 HK
3m ADTV (USDm)	54	RIC	1109.HK

FINANCIALS AND RATIOS (RMB)

Year to	12/2019a	12/2020e	12/2021e	12/2022e
HSBC EPS	3.11	3.44	4.18	4.78
HSBC EPS (prev)	3.11	3.44	4.18	4.78
Change (%)	0.0	0.0	0.0	0.0
Consensus EPS	3.21	3.41	3.99	4.31
PE (x)	8.6	7.8	6.4	5.6
Dividend yield (%)	4.0	4.4	5.4	6.1

Source: Refinitiv Datastream, Bloomberg, HSBC estimates

52-WEEK PRICE



Source: HSBC estimates, Refinitiv IBES

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Proven record of urban renewal project execution and high-quality pipeline

As we have illustrated in the *Key companies and potential winners* section, CRL is considered a bellwether in the field of urban renewal with its arguably most successful and the largest village redevelopment project *Shenzhen CR City*, which has been contributing to CRL's revenue and earnings for years. We believe the company is able to replicate the success, predicated on its skilful professional urban redevelopment team along with an ample project pipeline in prime locations. CRL is expected to convert 9m sqm of GFA from urban renewal projects in the next three years.

A turnaround story for a retail developer

We believe CRL is on track to fulfil its full-year sales target of RMB262bn in FY20 at a solid and achievable growth rate of 8%. In 1H20, the company achieved 42% of its sales target. Additionally, we believe the company is able to achieve its guided 10% y-o-y growth in both revenue and net profit for 2020e, also driven by the proven recovery in its investment property business, which delivered a positive and meaningful 3.8% y-o-y growth in rental income in June 2020. Another possible key share price catalyst is the potential spin-off of the property management segment, with exact timeline remaining unclear, as announced by CRL.

Valuation and risk

We maintain our Buy rating with an unchanged target price of HKD40.90, based on our unchanged NAV discount of 31% (historical mean) applied to our unchanged NAV estimate of HKD59.40/share. Our target price implies upside of c17% from the current share price. We maintain our Buy rating, given CRL's stable and quality growth in the DP business and leading position in the IP business. **Key downside risks:** the possibility that the company is unable to maintain its contracted sales momentum; lower-than-expected margins; any material slowdown in the shopping mall segment; overly aggressive acquisitions; and uncertainties related to macroeconomic and property-specific policies.

Financials & valuation: China Resources Land

Buy

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (RMBm)				
Property development revenue	127,199	151,919	183,015	218,020
Property inv and hotel revenue	12,028	12,785	15,320	18,492
Other revenue	8,510	8,765	9,028	9,299
Total revenue	147,736	173,468	207,362	245,810
Cost of sales	(91,736)	(110,633)	(133,499)	(158,395)
Gross profit	56,000	62,835	73,863	87,415
Selling & Admin expenses	(10,815)	(12,169)	(13,392)	(15,352)
Other gains	2,828	0	0	0
Operating profit/EBIT	48,013	50,667	60,471	72,063
Net interest	(1,327)	(1,461)	(1,528)	(1,739)
Share of profit from asso.	3,718	5,614	5,344	5,182
Revaluation surplus	10,590	0	0	0
PBT	60,994	54,820	64,286	75,506
Taxation	(26,643)	(24,562)	(28,914)	(34,155)
Minority interests	(5,390)	(5,709)	(5,554)	(7,257)
Net profit	28,962	24,549	29,819	34,095
Core Profit	21,650	24,549	29,819	34,095
Cash flow summary (RMBm)				
Cash flow from operations	12,968	11,026	12,013	16,335
Capex	(5,531)	(9,226)	(7,500)	(7,500)
Other investing activities	(16,294)	(10,577)	(7,043)	(5,632)
Net cash from financing activities	1,568	10,282	11,960	4,431
Net change in cash	(7,270)	1,504	9,430	7,634
Cash at the beginning	69,246	61,976	63,480	72,910
Cash and bank balances at the end	63,699	65,203	74,633	82,267
Balance sheet summary (RMBm)				
Shareholders' funds	183,574	197,028	213,588	235,549
Long-term liabilities	116,202	114,143	123,708	129,257
Minority interests	49,898	55,608	61,161	68,418
Total capital employed	371,041	389,117	421,815	457,654
Fixed assets	167,594	154,271	161,231	168,192
Other non-current assets	74,419	88,765	101,846	116,027
Current assets	520,095	578,977	638,738	699,398
Total assets	762,108	822,013	901,815	983,617

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
y-o-y % change				
Revenue	22%	17%	20%	19%
Operating profit	6%	6%	19%	19%
PBT	18%	-10%	17%	17%
Reported EPS	18%	-17%	21%	14%
HSBC EPS	12%	11%	21%	14%
Ratios (%)				
ROIC ex exceptionals	9%	8%	9%	10%
ROAE ex exceptionals	13%	13%	15%	15%
ROAA ex exceptionals	3%	3%	3%	4%
Gross margin	38%	36%	36%	36%
Core profit margin	15%	14%	14%	14%
Interest cover ex exceptionals (x)	10.5	8.9	8.6	8.9
Net debt/equity (total equity)	30%	38%	41%	40%
Net debt/equity (ex. MI, PCS as debt)	47%	57%	60%	58%
Per share data (RMB)				
Reported EPS (fully diluted)	4.16	3.44	4.18	4.78
HSBC EPS (fully diluted)	3.11	3.44	4.18	4.78
DPS (RMB)	1.07	1.18	1.43	1.64
BV (RMB)	25.7	27.6	30.0	33.0

Source: Company data, HSBC estimates

CRL: NAV breakdown

	(RMBm)	(HKD/share)	% of GAV
Development properties			
Office/retail	1,529	0.2	0.3%
Residential	448,404	70.6	76.6%
Investment properties			
Office/retail	114,715	18.1	19.6%
Residential	1,476	0.2	0.3%
Hotel properties	19,626	3.1	3.4%
Net debt (excluding restricted cash)	(96,719)	(15.2)	
Outstanding land premium	(30,050)	(4.7)	
Outstanding LAT	(81,464)	(12.8)	
Fair value NAV	**377,517**	**59.4**	**100.0%**

Source: HSBC estimates

ESG metrics

Environmental Indicators	12/2018a
GHG emission intensity*	32.2
Energy intensity*	36.4
CO_2 reduction policy	Yes
Social Indicators	**12/2018a**
Employee costs as % of revenues	6.4
Employee turnover (%)	27.1
Diversity policy	Yes

Governance Indicators	12/2019a
No. of board members	NA
Average board tenure (years)	NA
Female board members (%)	NA
Board members independence (%)	NA

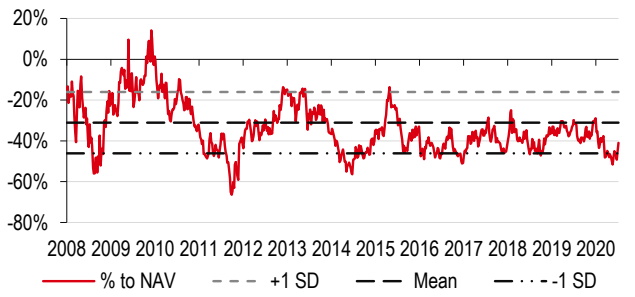
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

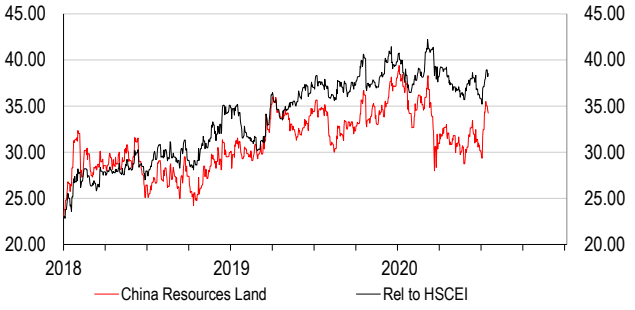
Share price (HKD)	35.05	Free float	39%
Target price (HKD)	40.90	Sector	REMD
RIC (Equity)	1109.HK	Country/Region	China
Bloomberg (Equity)	1109 HK	Analyst	Michelle Kwok
Market cap (USDm)	32,247	Contact	+852 2996 6918

NAV discount



Source: Company data, Refinitiv Datastream, HSBC estimates

Price relative



Note: Priced at close of 10 July 2020
Source: HSBC

Valuation and risks

		Valuation	Risks
Country Garden 2007 HK **Buy**	Current price: **HKD10.56** Target price: **HKD11.50** Upside: **+9%**	We derive our unchanged fair value target price of HKD11.50/share from an unchanged target discount of 40% at 0.5 SD below the historical mean applied to our unchanged NAV estimate of HKD19.10/share. With 9% upside to our target price from the current share price, we maintain our Buy rating on the back of the company's fundamental turnaround, strong sales momentum, and a potential credit rating upgrade. **Michelle Kwok*** | michellekwok@hsbc.com.hk | +852 2996 6918 The Hongkong and Shanghai Banking Corporation Limited	**Key downside risks:** slower-than-expected sales in tier-3 cities; restrictive property-specific policies; continued tightness in credit; and regulatory and macro uncertainties.
CIFI 884 HK **Buy**	Current price: **HKD6.71** Target price: **HKD8.60** Upside: **+28%**	We derive our unchanged fair value target price of HKD8.60/share from an unchanged target discount of 53% at the historical mean applied to our unchanged NAV estimate of HKD18.30/share. Our target price implies 42% upside from the current share price. We maintain our Buy rating, as we expect the company will deliver solid earnings growth in 2020e. **Albert Tam*** | albert.p.h.tam@hsbc.com.hk | +852 2822 4395 The Hongkong and Shanghai Banking Corporation Limited	**Key downside risks:** overly aggressive landbank acquisitions; JV projects' liabilities; slower-than-expected contracted sales growth; increases in leverage; margin pressure; and uncertainties on macroeconomic and property-specific policies.

Priced at 10 July 2020
Source: Bloomberg, HSBC estimates
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Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Michelle Kwok, Albert Tam, Max Liang, CFA and Louie Lu

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 15 July 2020, the distribution of all independent ratings published by HSBC is as follows:

Buy	54%	(31% of these provided with Investment Banking Services)
Hold	37%	(32% of these provided with Investment Banking Services)
Sell	9%	(22% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures.

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

Clients of Global Research and Global Banking and Markets: www.research.hsbc.com/A/Disclosures

Clients of HSBC Private Banking: www.research.privatebank.hsbc.com/Disclosures

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
CHINA RESOURCES LAND	1109.HK	34.25	14 Jul 2020	1, 4, 5, 6, 7, 11
CIFI HOLDINGS	0884.HK	6.72	14 Jul 2020	1, 2, 5, 6, 7
COUNTRY GARDEN HOLDINGS	2007.HK	10.30	14 Jul 2020	1, 2, 5, 6, 7, 11
KWG GROUP	1813.HK	12.98	14 Jul 2020	5, 6, 7
LOGAN PROPERTY HOLDINGS	3380.HK	14.34	14 Jul 2020	5, 6, 7
TIMES CHINA	1233.HK	14.50	14 Jul 2020	2, 5, 6, 7

Source: HSBC

1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.

2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.

4 As of 30 June 2020, HSBC beneficially owned 1% or more of a class of common equity securities of this company.

5 As of 31 May 2020, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.

6 As of 31 May 2020, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.

7 As of 31 May 2020, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.

8 A covering analyst/s has received compensation from this company in the past 12 months.

9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.

10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.

11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

12 As of 09 Jul 2020, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

13 As of 09 Jul 2020, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

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